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EFET response to ENTSO-E consultation on Core CCR – regional resign of long-term transmission rights based on Article 31 FCA Regulation; Third amendment

25 January 2020

In principle, we are neutral to the issuance of either PTRs or FTR options by TSOs, subject to some concerns described in more detail below. In view of these concerns, we would welcome an analysis of the expected benefits, which would justify the proposed switch.

In line with our earlier comments to related consultations,[1] in order for us to support the replacement of PTR UIOSI with FTR options by the Core TSOs on the bidding zone borders AT-SI, CZ-DE/LU, CZ-SK, HU-SK, HU-RO, HR-HU, PL-CZ, PL-DE/LU, PL-SK and SI-HU, the following prerequisites would have to be met:

- Proper justification of the reasons for this switch and an assessment of its benefits from a global social welfare perspective;
- Cross-border transmission capacity allocation maximised to 100% of the available capacity at the time of calculation (system security reservations should not be tolerated for FTR options);
- Full financial firmness of FTRs, and impossibility to curtail for any other reason than Force Majeure (system security justifications for curtailment should not be tolerated for FTR options);
- No additional exposure for the market, e.g. in case day-ahead markets do not clear;

Furthermore, we fully support the proposal that the change shall not apply to already allocated transmission rights. This would provide certainty, in line with the principles of contract law and the requirements for firmness of transmission capacity rights embedded in the Forward Capacity Allocation (FCA) Regulation and the EU Harmonised Allocation Rules (HAR).

Regarding the timing of the switch, we understand that at the earliest this would take place at the first auction for the timeframe 2021, conditional upon the implementation of the Core flow-based market coupling project. Should the coupling project be delayed and implemented only in the course of 2021, however, the switch to FTR options should likewise be postponed to the start of the following calendar year.

While we acknowledge that the introduction of FTR options is a possibility foreseen in the FCA Regulation, it is also an important market design change. Therefore, this proposal

[1] EFET response to Core TSOs consultation on the design of long-term transmission rights: https://efet.org/Files/Documents/Downloads/EFET_CORE%20TSOs%20consultation%20FTRs_07032019.pdf; EFET response to ACER Public Consultation on the amendments of the regional design of long-term transmission rights for the Core Region: https://efet.org/Files/Documents/Downloads/EFET_ACER%20consultation%20CORE%20LTTR_30082019.pdf

should be accompanied by an explanation of the motivations of the Core TSOs, as well as an assessment of the expected benefits of the change in terms of overall social welfare.

EFET supports the issuance by TSOs of forward transmission rights (PTRs or FTR options) at all bidding zone borders in Europe and in all directions, to the full amount that the underlying infrastructure can offer for each timeframe, as calculated according to the relevant capacity calculation methodology. However, the main difference between PTRs and FTR options is the capacity of market participants to nominate PTRs, and this option to nominate PTRs has, as such, a value. We would hence like to highlight a few concerns regarding the exclusive use of FTR options:

- The exclusive use of FTR options would tie market participants to power exchanges, as no physical hedging instrument will be able to back OTC cross-border forward transactions. This restricts market participants' ability to weigh the benefits and drawbacks – in financial terms and practical arrangements – of using OTC platforms or power exchanges for their physical cross-border transactions. In practical terms, market participants will have to close their physical positions on the day-ahead market on both sides of the border, increasing the administrative and financial burden – such as mandatory membership to the power exchange, clearing fees, reporting, etc.
- In case of partial clearing, the outcome will be different than with PTRs due to a potential remaining imbalance at the BRP side. However, first, market participants should still be able to rely on cross-border capacities to balance their portfolio, as the case might be. The switch from PTRs to FTR options does not change the interconnection capacity available to the market. As a result, this implementation should not result in a regression in the functioning of the market, most particularly in terms of cross-border transmission capacity made available to the market as far in advance of real time as possible. Second, the introduction of FTR options should not come with a risk of paying high imbalances that would not have been there if market participants decided to nominate their PTRs. Therefore, a mechanism should be in place to cover any risk related to unserved energy in the concerned bidding zones. As an example, this risk has been acknowledged by CREG when the switch from PTR to FTR options was implemented at the Belgian borders (cf. CREG decision B1446, paragraph 76). This risk can be particularly high at borders connecting bidding zones with low liquidity, such as some of the borders subject to this consultation.
- All available capacity (as the output of the long-term capacity calculation process) should be allocated in the forward time frame as far in advance as possible. TSOs should update their computation throughout the year and offer the additional released capacity (if any) in subsequent auctions. This is true for PTRs, but even more so for FTR options: there should be no reservation for day-ahead, as no physical event linked to operational security or emergency situation may affect FTR options. We therefore hope that no capacity will be reserved ex-ante for the day-ahead or balancing markets.
- As a final note, we remind the Core TSOs that we have serious concerns regarding article 56.3 of EU HAR for the case of FTR options. Article 56.3 lays down the rules for curtailment of allocated rights, i.e. one of the elements of the firmness of long-term transmission rights which is, of course, of utmost important for market participants. EFET does not agree with the possibility for TSOs to curtail allocated

FTR options for reasons of system security: since FTR options cannot be nominated, their allocation cannot have any impact on the state of the system, hence TSOs bear no physical risk. Therefore, we do not see any reason to apply a curtailment for system security reasons to FTR options. Only curtailments in case of Force Majeure should be applicable for FTR options. We therefore suggest that TSOs themselves should request a review of this article, especially given the increasing number of borders that will use FTR options going forward.